



Opportunity Zones in Rural Indiana



**An Innovative Strategy for
Expanding Investments in High
Need Communities**

Thank You for Joining Today's Webinar



Today's Presenters

Bo Beaulieu, Director
Purdue Center for Regional Development
ljb@purdue.edu

Matt Crouch, Deputy Director
Office of Community and Rural Affairs
MCrouch@ocra.IN.gov



Special Thanks



Committed to the future of rural communities.

For awarding our team a 2019 Rural Business Enterprise Grant to advance our Opportunity Zone Work in Rural Indiana.

Webinar Sponsors



*Office of the Lieutenant
Governor Suzanne Crouch*



Center for
Regional Development



Today's Topics

- What are Opportunity Zones (OZs)?
- How did OZs come about and why?
- The OZ selection process and Rural OZs in Indiana
- OZ Program: How it works
- Investing in OZs: Some possible areas
- The New Rural IN Opportunities Zones Initiative
- Application timeline and selection process
- A Look at complementary funding programs
- Benefits to your OZ site, if selected
- Questions and Answers

What is the Opportunity Zones Program?

An effort designed to invest capital in underserved areas of the country, places in need of an influx of money to jump-start their economies.



Source: Jeff Andrews, October 2018

www.curbed.com/2018/10/3/17898370/opportunity-zones-tax-bill-community-development-capital-gains



Opportunity Zones: A Product of Federal Legislation

- The OZ program was established by the U.S. Congress as part of the 2017 Tax Cuts and Jobs Act.
- It represents an innovative approach to promote long-term investment by the private sector in low-income urban and rural communities across the U.S.
- Opportunity Zones are chosen by the Governors of each state and subsequently approved by the U.S. Treasury Department.





Why the Need for an Opportunity Zones Program?

Three of every four distressed counties in the U.S. have fewer business establishments today than they did in 2007, just prior to the Great Recession.

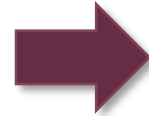
These areas have witnessed a decline in business formations. Furthermore, they have fewer employers, innovators & service providers.

Economic growth is happening in a handful of metropolitan areas of the U.S. But, economic expansion must occur in more communities, including rural areas.

Selection of Opportunity Zones: The Process



State identified all Census Tracts with income at or lower than 80% of the median family income of the state and a poverty rate greater than 20%*



Governor could nominate 25% of these eligible tracts as Opportunity Zones



Up to 5% of the nominated Opportunity Zone tracts could be non-low income sites as long as they were contiguous to a qualified, nominated tract and their median family income did not exceed 125% of the adjacent qualified tract.

* Different requirements for rural vs. metro tracts

Nominated tracts were then submitted and approved by the U.S. Treasury Dept. Designation is for 10 years.



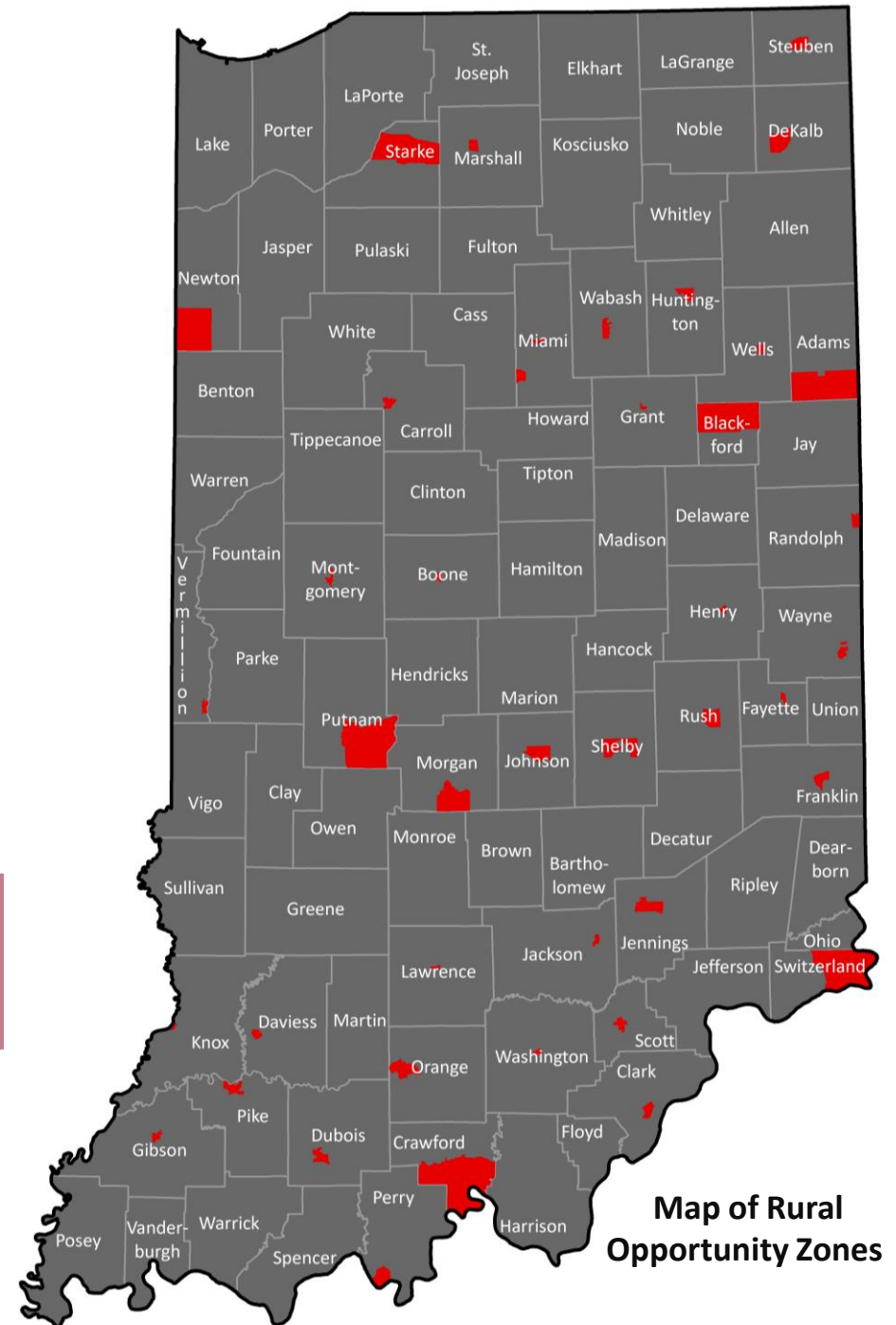
Indiana Opportunity Zones

156

Number of Zones Meeting the
Rural Definition*

46

* **Rural Definition:** Any area *other than* a city or town that has a population of greater than 50,000 and an urbanized area contiguous and adjacent to such a city or town (according to the latest decennial census).










A Snapshot of Rural Opportunity Zones in Indiana



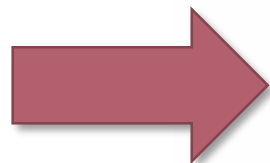
Demographic and Economic Features of Opportunity Zones in Indiana, 2017

	All Indiana Opportunity Zones (n = 156)	Rural Opportunity Zones (n= 46)
 Population	563,523 Average: 3,439	182,553 (34%) Average: 3,969
 Total Jobs & Unemployment	233,074 9.8%	79,520 (34.1%) 7%
 Average Poverty Rate/Range	29.1% (8.3% - 75.1%)	20.5% (8.3% - 35.2%)
 Education (average)	High School: 35.2% Some College/Associates: 28% College +: 17.9%	High School: 41.2% Some College/Associates: 27.9% College +: 13.2%
 Key Industries (average)	Manufacturing: 17.9% Entertainment: 12% Services: 8.7%	Manufacturing: 25% Entertainment: 9.6% Services: 5.9%

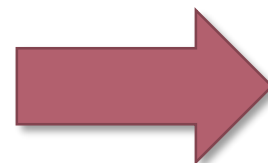
Opportunity Zones: How They Work



**Investors has 180
days from the point
of sale of an asset
to invest
(into a QOF)**



**Qualified Opportunity
Fund (QOF)**



Invest in Eligible Projects

Intent is to connect potential investors with capital gains to re-invest in economically distressed communities that could benefit from such investments.

The background image is a composite. The left side shows a row of houses with dark grey roofs and red brick chimneys under a cloudy sky. The right side shows a close-up of a small green seedling with three leaves growing out of a pile of various coins, including Australian dollar coins. A dark red diagonal banner cuts across the middle of the image, containing white text.

What is a Qualified Opportunity Fund (QOF)

A mechanism that is designed to invest in eligible property located in an Opportunity Zone. The fund uses the investor's gains from a prior investment for funding the Opportunity Fund.

A QOF has six months to deploy 90% of its capital in Ozs.

How are Qualified Opportunity Funds Created?

- To become a Qualified Opportunity Fund, an eligible corporation or partnership self-certifies by filing **Form 8996: Qualified Opportunity Fund** with its federal income tax return.
- No approval or action by the Internal Revenue Service is required.
- Any taxpayer who wishes to participate in the Opportunity Zone program can do so (but it must be in a Qualified Opportunity Fund).

Form 8996 (December 2018) Department of the Treasury Internal Revenue Service		Qualified Opportunity Fund ► Go to www.irs.gov/Form8996 for the latest information. ► Attach to your tax return. See instructions.		OMB No. 1545-0123 Attachment Sequence No. 996
Name			Employer identification number	
Part I General Information and Certification				
1 Type of taxpayer: <input type="checkbox"/> Corporation <input type="checkbox"/> Partnership				
2 Is the taxpayer organized for the purpose of investing in qualified opportunity zone property (other than another qualified opportunity fund)? <input type="checkbox"/> No. STOP. Do not file this form with your tax return. <input type="checkbox"/> Yes. Go to line 3.				
3 Is this the first period the taxpayer is a Qualified Opportunity Fund? <input type="checkbox"/> Yes. By checking this box, you certify that by the end of the taxpayer's first qualified opportunity fund year, the taxpayer's organizing documents include a statement of the entity's purpose of investing in qualified opportunity zone property and the description of the qualified opportunity zone business. See instructions. <input type="checkbox"/> No. Go to Part II.				
4 If "Yes" on line 3, list the first month in which the fund chooses to be a Qualified Opportunity Fund. ►				
Part II Investment Standard Calculation				
5 Total qualified opportunity zone property held by the taxpayer on the last day of the first 6-month period of the taxpayer's tax year. See instructions if Part I, line 3 is "Yes"	5			
6 Total assets held by the taxpayer on the last day of the first 6-month period of the taxpayer's tax year. See instructions if Part I, line 3 is "Yes"	6			
7 Divide line 5 by line 6.	7			
8 Total qualified opportunity zone property held by the taxpayer on the last day of the taxpayer's tax year	8			
9 Total assets held by the taxpayer on the last day of the taxpayer's tax year	9			
10 Divide line 8 by line 9.	10			
Part III Qualified Opportunity Fund Average and Penalty				
11 Add lines 7 and 10	11			
12 Divide line 11 by 2.0. See instructions if Part I, line 3 is "Yes"	12			
13 Is line 12 equal to or more than 0.90? <input type="checkbox"/> Yes. Enter -0- on this line and file this form with your tax return. <input type="checkbox"/> No. The fund has failed to maintain the investment standard. Complete Part IV to figure the penalty. Enter the penalty from line 8 of Part IV on this line, and file this form with your tax return	13			

Benefits to the Investor: Increases Over Time

Investment Length	Benefits Received
Less than 5 years	Deferred payment on existing capital gains until the date that the Opportunity Fund investment is sold or exchanged.
5-7 years	Benefits above plus 10% of tax on existing capital gain is canceled
7-10 years	Deferred payment of exiting capital gains until December 2026 or the date that the Opportunity Fund investment is sold or exchanged (whichever comes first) PLUS 15% of tax on existing capital gain is canceled.
Greater than 10 years	Benefits of the 7-10 years investment PLUS investor pays no capital gains tax on the Opportunity Fund investments (that is, investments are exempt from any capital gains beyond those which were previously deferred)

Source: LISC. See: https://ofn.org/sites/default/files/resources/PDFs/Opportunity_Zone_fact_sheet.pdf



Example of the Benefit of a Long-Term Investment in a QOF

In 2018, an individual investor sells 1,000 shares of Amazon stock that was purchased in 2013 for \$250,000. The sale at \$1,250 per share results in a \$1 million capital gain.

Instead of paying the \$238,000 in federal capital gains tax on this sale, the investor rolls the \$1 million gain into a Qualified Opportunity Fund that invests the capital in newly issued shares in various operating businesses located in Opportunity Zones. Let's assume that the value of that investment is \$2 million in 2028.

The benefit to the investor:

- Investing \$1 million instead of the \$762,000 that would be remaining if the capital did not re-invest into an Opportunity Fund.
- Paying \$202,300 in taxes in 2026, instead of paying \$238,000 in 2018.
- Owning no additional tax on the \$1 million in capital gains on the Opportunity Fund investment realized in 2028.

Examples of Investments Pursued in Rural OZs in the U.S.

SITE	PURPOSE
Heflin, Alabama (Population: 3,425)	Senior care center
Augusta, ME (Population: 18,594)	Main Street Refurbishing
Vicksburg, MS (Population: 22,489)	Sawmill Conversion

Source: The Economic Innovation Group, “The Latest on Opportunity Zones.” Washington, DC, April 2019.



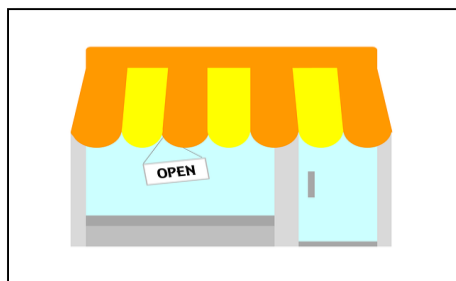


Investing in Indiana's Rural
Opportunity Zones

Areas of Possible Investment *



Housing



Small Business



Health Clinic



Startups



Warehousing/
Logistics



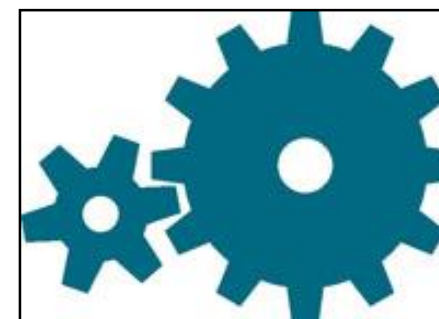
Broadband



Mixed Uses



Infrastructure



Industries



Agribusiness/
Food Processing

* **NOTE:** OZ Funds are likely to be invested in projects with the potential to be profitable.



NEXT STEPS?

Introducing the New Rural Indiana
Opportunity Zones Initiative



Awarded a Rural Business Enterprise Grant

- Proposal submitted to USDA RD as part of USDA's RBEG program by PCRD, OCRA and key partners. Project selected for funding.
- Project just launched June 2019.
- **PURPOSE?**
To build the capacity of Opportunity Zones in rural Indiana to attract private, public and/or philanthropic sector investments that support locally-driven priorities.



Committed to the future of rural communities.

Key Features of the IN Rural OZ Initiative

Technical assistance and capacity-building support provided by a statewide team of university & agency professionals

Type of support that could be provided:

- Guidance in establishing an OZ Task Force;
- Proprietary data products that profile types of properties in the area;
- Assessment of key economic drivers;
- Profile of existing businesses and companies in the zone and surrounding areas;
- Transportation infrastructure and connectivity;
- Discovering the area's community/economic development assets;
- Suitability analysis;
- Mapping of broadband services in the zone; and more.





https://www

The Indiana Rural Opportunity Zones Online Application

GO TO . . .

<https://forms.gle/6nDYatZXJvY97z2y8>

Applications from IN Rural OZs -- Timeline

Webinar: July 2, 2019

IHCDA Summit: July 23, 2019

Eligible OZs: The 46 Rural Opportunity Zones in Indiana

Application: Due July 31, 2019

Sites Selected: Announced August 14, 2019

No. of Sites: Approximately 6 will be selected

Launch Date: September 2019



Maximizing Local Benefits:

Examples of Complementary Funding Programs



Housing Programs (single/multi-family)



Main Street Program



Wastewater/Drinking Water Improvement Programs



HOME Investment Partnership Program



Small Business Administration Loans or SB Development Center Assistance



Rural Development Programs



Residential Historic Rehabilitation Credit



Public Facilities Program



Stormwater Improvements Program



Blight Elimination Program



IN Economic Development Corporation Industrial Recovery Tax Credit

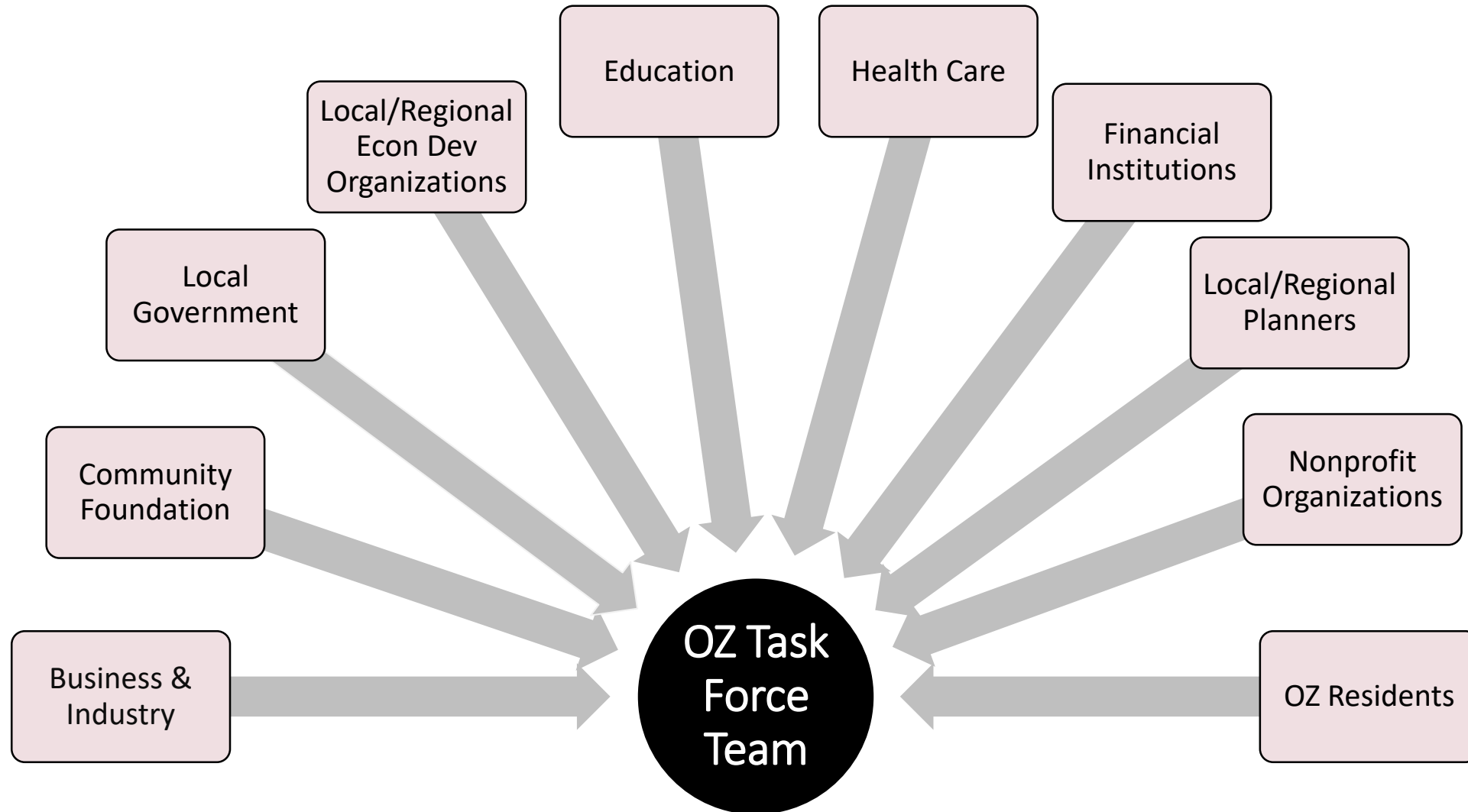


Economic Development Administration OZ Investments

Benefits for Indiana Rural Opportunity Zone Sites

1. Development and marketing of an *Opportunity Zone Investment Prospectus* by Task Force members and others;
2. Access to programs that can help jump-start or strengthen local economic development activities;
3. Connect Opportunity Zones to existing local, state, federal and foundation funding;
4. Document the impact(s) of the RBEG effort in the targeted Opportunity Zone sites.

Who to Invite to Your Opportunity Zone Team? Some Possibilities





Key Observations on OZs to Date

Economic Innovation Group

- OZs change the economics of many types of investments.
- Local capital will move first.
- Local leadership is key.
- Philanthropies, nonprofits and others want to know how they can help; looking to the community for an answer.
- It is local leaders that need to chart the vision for the OZ.



**Hope You are Interested in
Applying...**

Now, What Are Your Questions?





CONTACT US

Bo Beaulieu, PhD
Director, Purdue Center for
Regional Development
ljb@purdue.edu
765.494.7273

Matt Crouch
Deputy Director, Office of
Community and Rural Affairs
mcrouch@ocra.in.gov
317.750.7670



Contact Information

SOURCES:

Accelerator for America. *Louisville Opportunity Zone Prospectus: A Platform for Action*. October 2018.

Andrews, Jeff. *Opportunity Zones: Vital Community Development Tool or Tax Windfall for the Rich?* Cured. October 3, 2018.

Economic Innovation Group. *The Latest on Opportunity Zones*. Washington, DC. Not dated.

Economic Innovation Group. *IRS Publishes Second Round of Proposed OZ Guidance*. April 23, 2019.

Fikri, Kenan and John Lettieri. *The State of Socioeconomic Need and Community Change in Opportunity Zones*. Economic Innovation Group. December 2018.

Funcheon, Deirdra. *What to Look For in Next Round of Opportunity Zone Regulations*. April 10, 2019.

Katz, Bruce. *How Cities Maximize Opportunity Zones*. The New Localism. October 23, 2018.

LISC, *Opportunity Zones: A New Program to Connect Private Investment to Low-Income Communities Nationwide*. Not dated.

Michigan State University Extension. *Opportunity Zones: There's No Place Like Home*. Undated.

Padrick, Lee and Grace Lawrence. *Opportunity Zones for Downtown*. North Carolina Department of Commerce – Rural Planning Division. Not dated.